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1 recovery of the costs related to the work performed by SCE&G witness
2 Julie Cannell.

3 **Q. SCEUC WITNESS KEVIN O'DONNELL ARGUES THAT THE**
4 **COSTS RELATED TO JULIE CANNELL'S TESTIMONY**
5 **CONCERNING CURRENT CONDITIONS IN CAPITAL MARKETS**
6 **AND INVESTORS' PERSPECTIVES OF SCE&G SHOULD BE**
7 **DISALLOWED. HOW DO YOU RESPOND?**

8 A. I know of no reason why Mr. O'Donnell would single out Ms.
9 Cannell's testimony for criticism:

- 10 • Ms. Cannell is eminently qualified as a former utility fund analyst,
11 and a nationally recognized expert and advisor to the Edison Electric
12 Institute on investors' perceptions of regulatory decision-making
13 related to electric and gas companies. Ms. Cannell has participated
14 in several NARUC conferences as either a panelist or a respondent
15 and has testified from the investor perspective in utility rate
16 proceedings in 17 states.
- 17 • Wall Street experts have testified without objection as to current
18 market conditions, and investors' perceptions and sensitivities as a
19 part of each SCE&G electric rate case considered by this
20 Commission since 1990. See Commission Orders No. 2007-855
21 (Wall Street witness Cannell); 2005-2 and 2003-38 (Wall Street
22 witness Osborne); 1996-15 and 1993-465 (Wall Street witness

Schreiber). Similar investor perception testimony was recently introduced, without objection from Mr. O'Donnell, in the electric rate case filed by Duke Energy Carolinas, LLC in Docket No. 2009-226-E. See Order 2009-79.

- Ms. Cannell's testimony corroborates specific observations about market conditions and investor expectations discussed in my testimony, and that of Mr. Marsh.

Q. IS INFORMATION SUCH AS THAT CONTAINED IN MS. CANNELL'S TESTIMONY RELEVANT TO THIS PROCEEDING?

A. Information about market conditions, investors' expectations and concerns and rating agency matters is supremely relevant to the question of what constitutes an appropriate Return on Equity ("ROE") for SCE&G. The setting of an ROE for a utility is not an academic exercise. It is a real-world decision which, as this Commission has stated, "involves a balancing of investor and customer interests in the exercise of expert judgment by the Commission." See Order No. 96-15, p. 41. Under the Hope and Bluefield standards (Federal Power Comm'n v. Hope Natural Gas Co., 320 U.S. 591 (1944) and Bluefield Water Works Improvement Co. v. Public Serv. Comm'n of West Virginia, 262 U.S. 679 (1923)), as adopted by the South Carolina Supreme Court (Southern Bell Telephone and Telegraph Co. v. South Carolina Public Serv. Comm'n, 270 S.C. 590, 244 S.E.2d 278 (1978)), a fair rate of return for a utility is one that is commensurate with

1 returns on investments for other enterprises with similar risks, is adequate
2 to ensure the confidence of financial markets in the finances of the utility,
3 and is adequate to allow the utility to maintain its credit worthiness and to
4 attract new capital on reasonable terms. See Order No. 96-15, p. 41. Ms.
5 Cannell's testimony is well-documented with citations to analysts' reports
6 and credit rating agency studies. It provides direct evidence of what capital
7 markets consider to be the risk profile of the Company, the commensurate
8 returns available from similar investments and what sort of return is
9 necessary for the Company to maintain its creditworthiness and ability to
10 access capital on reasonable terms. This information is directly relevant to
11 the decisions that the Commission must make under the Hope and Bluefield
12 principles.

13 **Q. HOW DO YOU RESPOND TO MR. O'DONNELL'S CRITICISM OF**
14 **MS. CANNELL'S CONCLUSION THAT AN APPROPRIATE ROE**
15 **MAY SAVE MONEY FOR CUSTOMERS BY LOWERING**
16 **CAPITAL COSTS FOR THE COMPANY GOING FORWARD?**

17 A. I would refer Mr. O'Donnell to pages 16 to 17 of my prefiled
18 testimony where I calculate some of the additional financing costs that
19 customers would have to bear if the Company's debt rating or SCANA's
20 stock price were depressed by an unfavorable outcome in this proceeding.
21 This analysis was based on future stock issuances and debt issuances and
22 refinancing that have been publicly announced. The analysis shows only

1 part of the effect that would be expected but fully supports the position
2 taken in Ms. Cannell's testimony that both customers and investors share an
3 interest in appropriate ROE decisions by this Commission.

4 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

5 A. Yes, it does.